International Journal of Business Management & Research (IJBMR)
ISSN (P): 2249-6920; ISSN (E): 2249-8036
Vol. 12, Issue 1, Jun 2022, 1– 12

A STUDY ON FINANCIAL PERFORMANCE OF ASIAN PAINTS THROUGH RATIO ANALYSIS

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ABSTRACT

Numerical values from the financial statements of an organization are used to conduct ratio analysis. Ratio analysis is the most popular way of understanding the financial position of an organization. The capability of a company to meet its short term and long term financial needs can be analyzed using ratio analysis. Ratio analysis utilizes quantitative data for analyzing the financial performance of an organization. There are many kinds of ratios and each of them has a unique purpose. Investors select ratio analysis as the best method for analyzing the company's performance. To evaluate the financial performance of Asian Paints using ratio analysis. To analyze the impact of selected ratios on the net profit margin ratio at Asian Paints. Quantitative research had been used in this work. The financial values from the balance sheet, profit and loss account and cash flow statement have been procured for the selected study period. The hypotheses formulated have been tested using correlation and regression. Other tools like descriptive statistics and graphs have been used to understand the ratios. The financial performance of Asian Paints is better in the last five years. From 2016 onwards there is constant growth in the financial performance of the company. Forecasting shows that there is a positive net profit for the next few years.

KEYWORDS: Financial Values, Monitoring of Financial Performance, Asset Turnover Ratio, Asian Paints

Original Article

Received: Dec 18, 2021; **Accepted**: Jan 08, 2022; **Published**: Jan 12, 2022; **Paper Id**.: IJBMRJUN20221

INTRODUCTION

Numerical values from the financial statements of an organization are used to conduct ratio analysis. Ratio analysis is the most popular way of understanding the financial position of an organization. Historical data from organizational financial statements like balance sheet, cash flow statements and profit & loss account can be used to calculate ratios. There are many kinds of ratios and each of them has a unique purpose. Stakeholders of business organizations select ratio according to their objective and conduct analysis. Shareholders are more concerned about market efficiency ratios whereas production department is concerned about inventory management ratios. The capability of the company to meet its short term and long term financial needs can be analyzed using ratio analysis. Even though ratio analysis utilizes historical data, it can be used to predict the future performance of the company. When people think about an investment or associating with a company they are more concerned about the financial position of the company. There are two basic categories of people interested in ratio analysis; internal users and external users. The internal users conduct ratio analysis to develop purchase orders and enter into partnerships with suppliers. The external users of ratio analysis are shareholders, creditors and institutional investors. There are standard formulas for calculating ratios for the information procured from the financial statements of the company. There are readymade online calculators to conduct ratio analysis for the selected company. But it is important to possess the fundamental knowledge on each kind of ratio and its relevance for the selected stakeholders of the

business. Modern technology also provides visualization of the ratio analysis. The inline data from organizational financial statements are taken and they are analyzed for providing insights for stakeholders. Ratio analysis utilizes quantitative data for analyzing the financial performance of an organization. In this regard, Asian Paints financial statements have been analyzed in this research work. Research methodology in the next chapter details the process of analysis of company financial statements. The balance sheet displays the financial position of an organization with two major parameters assets and liabilities on a given data. It is the most important financial statement of a business organization. Listed companies communicate their financial information and future plans through annual reports. Due to the advent of internet technology, it is easy to access annual reports from websites of companies.

REVIEW OF LITERATURE

Dalal and Thaker (2019) had taken hundred Indian companies and analyzed their social, environmental and governance strategies from the perspective of risk management. It is found from their through panel data regression analysis that sustainable business practices help in the creation of shareholders wealth in the long term. Pavithran et al (2018) had taken ratios of Dr Reddy Laboratories and found that adoption of international financial standards does not have a significant impact on convergence with them. The ratios belonging to categories like liquidity, stability and profitability ratios have been evaluated using Wilcoxon signed test.

Kalaiselvi and Sangeetha (2018) had selected five stock broking companies and evaluated their performance with secondary data of ten years. In their study, they mentioned that clients with long term relationships with the stock broking companies have experienced growth in wealth. The performance of stock broking companies is closely monitored by the Stock Exchange Board of India. They have the opportunity to closely monitor the performance and any evidence for misuse of funds on behalf of clients. The activity ratios are selected when selecting the performance of stock broking companies.

Labhane et al (2018) had conducted a research study on the presence and absence of funds in selected Indian companies. The dividend payout ratio of 947 companies from 1995 to 2013 had been collected from the Bombay Stock Exchange (BSE). The catering theory of dividends had been supported by the observation of the trend of dividend payout ratio. Organizations with small size are using funds for investment opportunities and increasing financial leverage. Regression analysis had been used by using independent variables as leverage ratios, business risk and dividend distribution tax.

Agrawal et al (2019) had taken panel data of five companies from 2004 to 2018 and selected ratios such as debt equity ratio, return on assets, return on capital employed, current ration and net profit ratio and considered capital structure as dependent ratio. They have adopted the model of lineal panel regression method and used descriptive statistics and reliability tests. Amrutha et al (2019) had used secondary data of 79 companies from BSE listed companies. They have used Wilcoxon Signed Rank Test to know the influence of international financial standards for accounting on ratio analysis. There is difference in ratio analysis when they are calculated using GAAP and IFRS methods.

Patel (2018) had compared the performance of the merger of Bank of Baroda and Oriental Bank of Commerce by using data from financial statements. From their research, they have mentioned that performance after the merger is positive by using selected ratios like earnings per share, profit per share and business per employee. When evaluating the post merger performance for SBI and IDBI it is observed that business per employee had increased and it is found through

ratio analysis. Mergers and acquisitions of business organizations eliminate the healthy completion among them and it does not improve value for the customer but organizations can reduce risk with such strategies.

Bodla et al (2017) had evaluated the profitability of Indian insurance companies by taking a sample of thirteen insurance companies. LIC was the public sector organization and other elements in the sample are private sector companies. They have taken variables like under underwritings, net premium, solvency ratios and profit after tax. They have used ANOVA test for measuring the association between selected variables in the study.

RESEARCH OBJECTIVES

- To evaluate the financial performance of Asian Paints using ratio analysis.
- To analyze the impact of selected ratios on net profit margin ratio at Asian Paints.

STATEMENT OF PROBLEM

The financial performance of a manufacturing organization should be good for sustaining the business. Many organizations have got collapsed because of inappropriate monitoring of financial performance. In this regard, Asian Paints performance by using ratio analysis is essential for making informed decisions by its stakeholders.

SCOPE OF RESEARCH

The paints and varnish industry is huge and it is having a direct association with the construction industry. But in this research work, only Asian Paints financial performance is evaluated. Approximately ten years of financial statements of Asian Paints had been reviewed for conducting this study. There are many other paints with local brands and private labels but all those companies have not been used while conducting this research work. There are many kinds of ratios but it would be lengthy and time consuming to implement all kinds of ratios in the present work. Due to lack of sufficient time only major ratios such as liquidity ratios and profitability ratios have been used in this research work.

RESEARCH METHODOLOGY

Qualitative research had been used in this work. The financial values from the balance sheet, profit and loss account and cash flow statement have been procured for the selected study period. The study period is ten years from 2011 to 2020 and the financial statements have been gathered from annual reports and financial websites.

Sample Size: 10

Sample Techniques

Regression Test, Correlation Test

Source of Data

Secondary data had been used for this study and it was taken from journals, books, company websites and financial reporting websites. Major sites in the financial reporting category like Yahoo Finance and Money Control have been used for gathering the secondary data for this study.

Research Testing Tools

The hypotheses formulated have been tested using correlation and regression. Other tools like descriptive statistics,

frequency analysis and graphs have been used to understand the ratios.

Limitations:

- In this study, only ten years of data had been taken for analysis but the company had its existence in the industry for many decades.
- The projections are made using historical data at the company but risk due to external variables had not been considered.
- The influence of Covid-19 had made all the projections and forecasting to reconsider.
- Asian Paints performance is dependent on the construction industry.
- The real estate industry creates an impact on the performance of Asian Paints indirectly.
- Lockdown had slowed all the businesses in India except the pharmaceutical industry.

DATA ANALYSIS AND INTERPRETATION

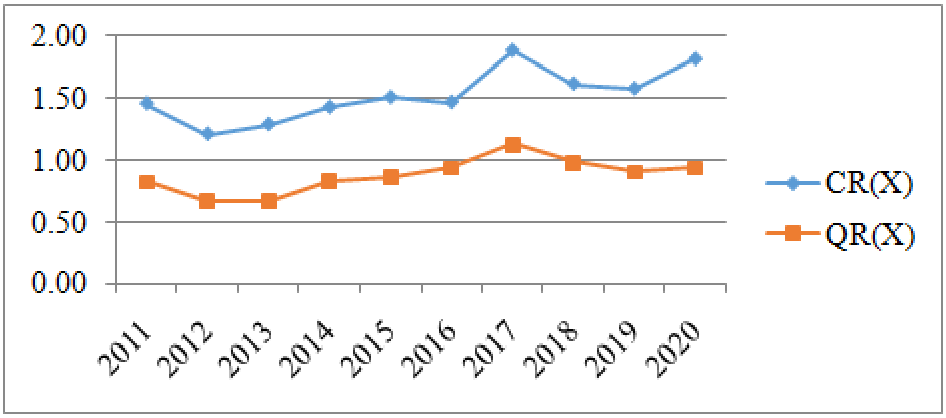
Year	Return on capital Employed (%)	Return on Assets (%)	Asset Turnover Ratio (%)	Current Ratio (X)	Quick Ratio (X)	Dividend Payout Net profit (%)	Inventory Turnover Ratio (X)	Return on Net Worth (%)	Net Profit per Share(Rs.)	Net Profit Margin (%)
2011	35.55	20.10	164.35	1.46	0.82	39.59	5.91	39.24	80.81	12.23
2012	35.62	19.24	159.92	1.21	0.66	40.03	6.30	38.52	99.92	12.03
2013	31.91	18.58	158.83	1.29	0.66	42.02	6.06	34.74	109.47	11.70
2014	29.99	17.49	155.92	1.43	0.83	43.48	6.26	32.46	12.19	11.22
2015	29.39	18.25	160.16	1.51	0.86	44.08	6.46	31.37	13.84	11.39
2016	30.14	19.09	151.19	1.47	0.94	45.03	7.85	32.18	16.65	12.63
2017	35.75	17.39	122.09	1.89	1.13	42.32	5.76	25.39	18.78	14.24
2018	35.25	16.35	122.26	1.62	0.98	52.14	6.50	24.29	19.75	13.37
2019	33.01	15.58	119.79	1.58	0.90	40.03	6.34	24.11	22.23	13.00
2020	33.91	19.53	126.54	1.82	0.94	65.59	6.08	28.07	27.67	15.43

Interpretation

The data for a period of ten years from 2011 to 2020 had been tabulated above. There are many ratios but few categories of ratios are enough to evaluate the performance. In the annexure of this research report, many ratios of Asian paints have been made available. Ten ratios belonging to liquidity, solvency and profitability have been considered for this study.

LIQUIDITY RATIOS

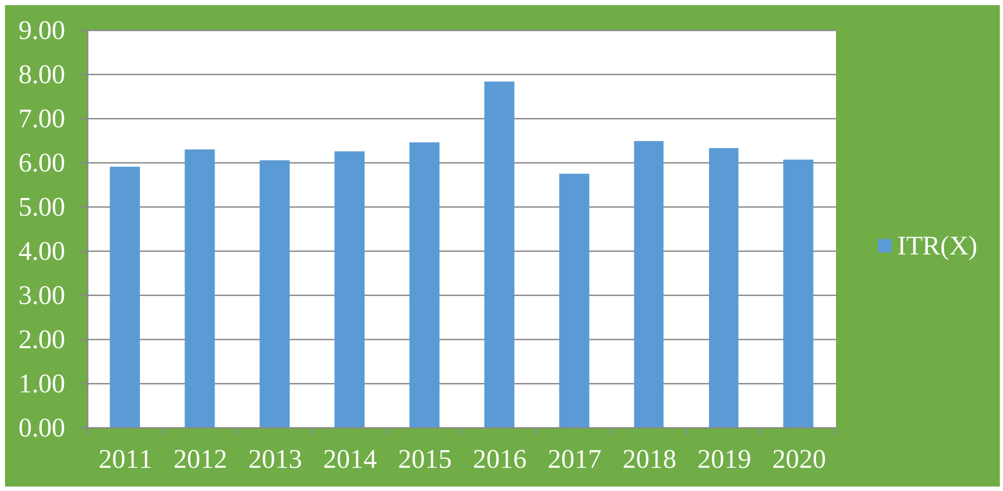
Current Ratio and Quick Ratio



Interpretation

Benchmark value for liquidity ratios is above 1 unit. The financial performance of Asian Paints is satisfactory with regard to the current ratio and quick ratio. At any point of time during the study period of ten years, Asian Paints has sufficient funds for its working capital. It is important for manufacturing organizations to have sufficient working capital. Working capital is about the difference between current liabilities and current assets in the balance sheet. The line charts display an association between current assets and current liabilities.

Inventory Turnover Ratio

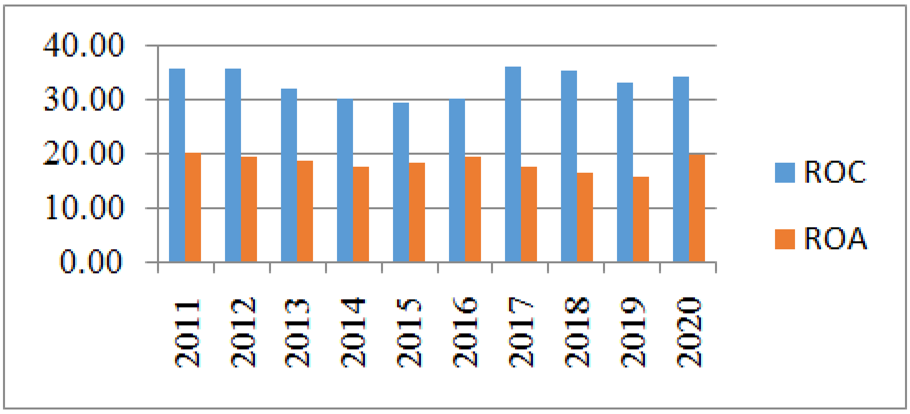


Interpretation

Inventory turnover ratio is about the frequency of sales of inventory in the organization. In a manufacturing organization, the production capacity is sold and when the number of times it is sold, it shows the better financial performance of the organization. From the above figure, the inventory turnover ratio (ITR) is high during the year 2016. ITR had experienced positive growth from 2011 onwards till 2016 and later it had declined. In the last three years of the study period, ITR is high in the year 2018. However, from the perspective of ITR, Asian Paints financial performance is excellent.

Profitability Ratios

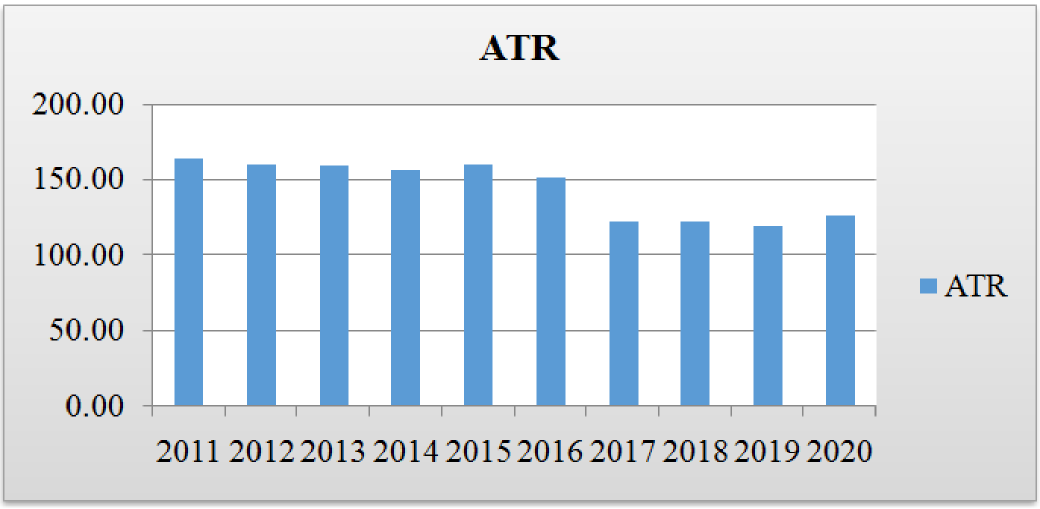
Return on Capital Employed (%) and Return on Assets (%)



Interpretation

With regard to profitability ratios, the two important ratios considered are return on capital employed (ROC) and return on assets (ROA). Organizational invest and take risks for better returns. The minimum return on for both ROC and ROA is minimum fifteen percent during the study period. It means organizations financial position and risk is low for its investment in business. During 2013, 2014 and 2016 the profitability is low whereas it had increased in the last three years of the study period.

Asset Turnover Ratio

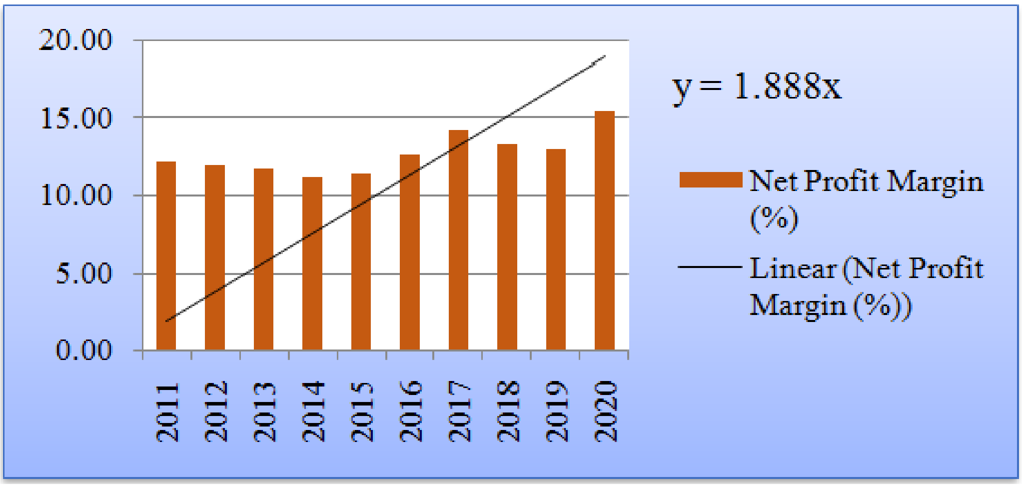


Interpretation

Asset turnover ratio is about the utilization of company assets in generating sales revenue. The higher the asset turnover ratio (ATR) is preferred; the better the performance of the company. During the selected study period of ten years, the ATR is high for the first six years from 2011 to 2016. Later the performance of the company had been low with regard to asset turnover ratio. However, the overall asset turnover ratio at the company is excellent and Asian Paints is utilizing the assets very efficiently.

Net Profit

Net Profit Margin



Interpretation

The most important ratio for evaluating the performance of an organization from the viewpoint of financial management is net profit margin (%). Net profit margin (NPM) % had been projected with regression line. It shows that there is positive growth of the company based on the historical data for net profit margin. Regression line is in positive upward direction with positive value for slope of the dependent variable. In future, it is anticipated that positive growth takes place for net profit margin (%). However, these projections can be wrong when dynamic changes happen in the business environment.

TESTING OF HYPOTHESIS

H1: There is an impact of net profit margin on dividend payout ratio at Asian Paints

Result

In the below table p-value for net profit margin is more than benchmark value 0.05, therefore H1 is rejected. Therefore, net profit margin does not have a significant relationship with dividend payout ratio. Dividend payout ratio net profit is an important variable to know the benefits for shareholders for the company.

Regression Test Results

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	-11.544	35.672		-.324	.756
1	Net Profit Margin (%)	4.358	1.964	.728	2.219	.062
	Return on Net Worth (%)	.049	.473	.034	.103	.921

a. Dependent Variable: Dividend Payout Net Profit (%)

H2: There is an impact of return on net worth (%) on dividend payout ratio net profit at Asian Paints.

Result

The significant p-value for return on net worth (RONW) is more than 0.05 which means H2 is rejected. Hence dividends paid to shareholders are not impacted b return on net worth at the selected company. The p-value for return on net worth can be found in the above regression table.

H3: There is an impact of return on capital employed (ROC) on net profit margin at Asian Paints.

Result

H3 is rejected because p-value for ROC is more than 0.05 in the below table. The net profit margin and return on capital employed does not have an association at Asian paints.

Regression Test Results

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	12.850	.554		23.185	.000
	Return on Capital Employed (ROC)	-.007	.013	-.013	-.523	.620
	Return on Assets (ROA)	.743	.029	.808	25.947	.000
	Assets Turnover Ratio (ATR)	-.093	.002	-1.314	-39.105	.000

a. Dependent Variable: Net Profit Margin (%)

H4: There is an association between return on assets and net profit margin at Asian Paints.

Result

H4 is accepted because significant p-value for return on assets is less than 0.05. Hence net profit margin had been positively influenced by return on assets at Asian Paints.

H5: There is an association between Asset Turnover Ratio (ATR) and net profit margin at Asian Paints.

Result

H5 is accepted because p-value for Assets Turnover Ratio is less than 0.05. But the beta value is negative and t value is also negative in the above table. Hence it is found from the regression test that asset turnover ratio had negative impact on net profit margin at Asian Paints.

Correlation Test

Correlation Test Results

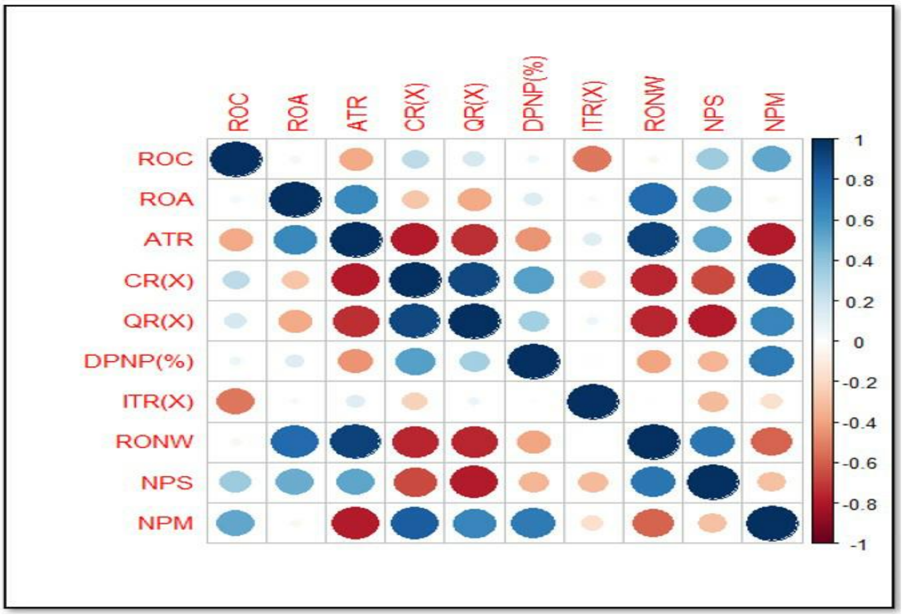
		Current Ratio (X)	Inventory Turnover Ratio (X)
Current Ratio (X)	Pearson Correlation	1	-.223
	Sig. (2-tailed)		.537
	N	10	10
Inventory Turnover Ratio (X)	Pearson Correlation	-.223	1
	Sig. (2-tailed)	.537	
	N	10	10

H6: There is positive correlation between current ratio and inventory turnover ratio at Asian Paints.

Result

In the above correlation table the p-value between current ratio and inventory turnover ratio is 0.537 which is more than benchmark value 0.05. Therefore H6 is rejected which means there is not significant correlation between inventory turnover ratio and current ratio.

Heat Map of Correlation Matrix



Interpretation

The blue dots with high size show a positive correlation and red color dots based on size shows the negative correlation. The legend for each kind of color between the variables can be seen in the above heat map. As per the above heat map return on net worth is having a positive correlation with asset turnover ratio.

FINDINGS

- Financial performance of Asian Paints is better in the last five years.
- In the study period of ten years, initially, there is high net profit for Asian Paints, but it suddenly declined in 2016.
- From 2016 onwards there is constant growth in the financial performance of the company.
- Dividend payout ratio is not influenced by net profit margin percent of the company.
- Operating profit is excellent during the last five years from 2016 to 2020.
- There is constant growth in cash profit and net profit at Asian Paints.
- There is projection of at least 22 INR as net profit per share in the next two years.
- Forecasting shows that there is positive net profit for the next few years.
- Regression equation shows positive growth of various financial parameters.
- Return on net worth is having positive correlation with inventory turnover ratio.
- Inventory turnover ratio had been consistently growing during the study period.
- Return on assets is satisfactory at Asian Paints.
- Return on capital employed is high compared to return on assets.
- Ratio analysis of Asian Paints had determined that Asian Paints is robust company.

SUGGESTIONS

- Investors can go ahead with purchasing shares of Asian Paints.
- It is time for Asian Paints to adopt horizontal integration.
- Innovative paints should be introduced by the company.
- The company should enter into partnerships with real estate companies and construction companies.
- Strategies must be developed to reduce the cost of the product.
- Lean management principles should be implemented for avoiding duplication processes in the manufacturing process.
- Investment in television advertisements should be made to increase the brand image of the product.
- The durability of the product should be increased with the latest technology.
- Anti-bacteria paints must be introduced for meeting the needs of modern customers.
- Painters must be given incentives for giving word of mouth advertising to the product.
- Hardware shops must be designed so that Asian Paints brand image should influence the consumer decision making process.

CONCLUSIONS

Ratio analysis is a traditional and powerful tool for evaluating the performance of the company. Financial statements can be understood through comparative statements. But it will show either increase or decrease of particulars in financial statements. But ratio analysis gives more meaningful information about the company. For example, working capital is more important for manufacturing companies and it can understand easily through working capital. Asian Paints performance is better with regard to working capital. Asian Paints is having the highest market share in its industry.

Return on assets is positive during the past decade at Asian Paints. The correlation between various ratios helps to project the future performance of the company. Asian Paints is having a brand reputation in the market and its market share is large. This company is facing competition from global companies with innovative paints. The sustainability of Asian Paints depends on innovative paints at competitive prices. Every day consumers are in touch with the product, therefore companies need to consider it while doing research on innovative paints.

There are many types of ratios and they can be categorized as liquidity ratios, profitability ratios and per share ratios. Stakeholders of the business need to consider their specific category for conducting ratio analysis. For instance, the investors need to consider per share ratios whereas financial managers and accounting departments need to consider liquidity and working capital ratios. The warehouse department and production department considers inventory management ratios for designing the production strategy. Overall ratio analysis at Asian Paints had displayed the healthy financial performance of the company.

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